

Press release

LCQ18: Regulation of callable bull/bear contracts

Wednesday, April 29, 2009

Following is a question by the Hon Starry Lee and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (April 29):

Question:

A performance report of the Hong Kong Exchanges and Clearing Limited revealed that 4,231 new callable bull/bear contracts (CBBCs) were listed last year, representing an almost ten-fold year-on-year increase, and the average daily turnover of these investment products increased from under \$100 million in the first 12 months after their launch in June 2006 to \$4.24 billion last year, accounting for about 5.9% of the total market turnover in the Cash Market. According to the survey results published by a political party in March this year, 60% of those who had invested in CBBCs indicated that the actual risks were higher than those they originally expected, and 66% considered that the quotes provided by the CBBC liquidity providers did not follow closely the price movements of the underlying assets as publicised, reflecting that the advertisements on CBBCs may mislead investors into thinking that CBBCs are simple investment products with low risks and high returns. In this connection, will the Government inform this Council:

(a) of the number of relevant complaints received by the regulatory authorities each year since the launch of CBBCs; the nature of these complaints, the investigation outcome and the follow-up actions of the regulatory authorities;

(b) whether the regulatory authorities will step up the monitoring of the quotes provided by CBBC liquidity providers to ensure that they fulfill their obligations; if they will, of the details; if not, the reasons for that; and

(c) whether the regulatory authorities will enhance their efforts to educate investors, so that investors will fully understand the risks involved in CBBCs before making such investments; if they will, of the details; if not, the reasons for that?

Reply:

President,

(a) Callable bull/bear contracts (CBBCs) has gained increasing popularity since they were launched on June 12, 2006. As of March 2009, there were over 1 500 listed CBBCs, over one million buy and sell CBBC orders and 50 000 CBBC trades conducted on average daily. The number of complaints received by the Securities and Futures Commission (SFC) and Hong Kong Exchanges and Clearing Limited (HKEx) is relatively insignificant as compared to the large trading volume involved. Details are set out in Annex 1.

(b) The HKEx's Listing Rules require CBBC issuers to provide liquidity (buy and sell quotations) service for each CBBC issued, and to publish in the listing documents the terms and conditions of the liquidity provision service made available on the HKEx website. The listing documents also contain other important information such as product description, risk factors, etc.

The HKEx will continue to monitor closely the issuance of CBBCs and their liquidity provision. It will ensure compliance with the Listing Rules requirements and the service commitments as set out in the listing documents provided by issuers.

(c) The SFC has been implementing various investor education programmes to enhance investors' understanding about the market, products and investment risks, and to encourage investors to make informed investment decisions.

Since the launch of CBBCs in the Hong Kong market on June 12, 2006, the SFC has conducted 22 relevant investor education initiatives in different channels explaining the features and risks of the product, the mechanism adopted by liquidity providers and the differences between CBBC and derivative warrants. Investors were also reminded of the importance of understanding all the main features and risks of this investment instrument before investing and that they should carefully read the listing documents because usually not all of the information could be found in the marketing materials. The SFC will continue its work in this respect.

In addition, HKEx has also developed a CBBC web corner on its website (<http://www.hkex.com.hk/prod/cbbc/intro.htm>). It provides a centralised facility to further enhance investor education and understanding of CBBC. The CBBC web corner contains educational materials on risks of investing in CBBCs and CBBC product features. Investors can search and compare other CBBC with similar terms, and navigate through web linkages to individual CBBC listing documents. In this way, investors can access and review the details of the terms and conditions set out in the listing documents. HKEx also actively works with the SFC and the industry to enhance investor education in Hong Kong.

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